



November 30, 2007

Informational Circular 2007-11

To: All Members

## **Second Injury Fund Assessment & Policy Surcharge Factor**

### **Second Injury Fund Assessment**

The Workers Compensation Board of Indiana (“Board”) issued its notice to the Indiana Worker’s Compensation Community, dated November 29, 2007, for the 2008 Second Injury Fund (“SIF”) assessment. The assessment amount is \$2,444,100. Based on total paid losses in 2006 (latest data available) of \$448,906,840, the assessment rate is 0.54% which is within the statutory limit of 2.5% [reference IC § 22-3-3-13 (c)].

The Board has set up two installments to pay half the annual sum due in each installment. Payments are due by January 31, 2008 and June 16, 2008.

### **Policy Surcharge Factor**

The 2008 statewide average policy surcharge factor is 0.0026 compared to last year’s average factor of 0.0065. As in the past, the ICRB does not file an advisory policy surcharge factor with the Indiana Department of Insurance (IDOI). Each carrier must calculate and apply its own factor to its policies. This circular and the factors being provided herein are for informational purposes only. For assigned risk policies, servicing carriers should use the 0.0026 factor.

### **At-a-Glance Summary**

- Carrier must complete Certification form and send with its payment *to the Board* (not the ICRB).
- Carrier must show assessment on policies as “a surcharge based on the employer's premium.”
- Surcharge is not premium, as defined by statute. So, the surcharge amount must be excluded for purposes of computation of agent commission and premium taxes.
- Carrier can code surcharge amount using Statistical Code 0935 – Second Injury Fund Surcharge.
- Because each carrier’s premium is different, then each carrier’s assessment payable to the WC Board will be different. Therefore, each carrier’s policy surcharge factor may also be different.
- Carriers are not required to file their policy surcharge factors with the Department of Insurance.
- The statewide average surcharge factor of 0.0026 is for informational purposes only to assist members.

### **Statute Changes**

[House Enrolled Act \(HEA\) 1307](#) effective July 1, 2006 made a few changes in IC § 22-3-3-13 to the calculation of the Second Injury Fund. Here's a summary:

- Assessment limit of 2.5% is now based on total paid losses instead of only indemnity losses.
- Total losses are from all entities (carriers, other insuring entities, and self-insureds).
- As of November 1, if the SIF balance exceeds 135% of the prior year's disbursement, no assessment will occur for the next year.
- Assessment applies to "all employers." Assessment is split between self-insured employers and insured employers based on each group's portion of total paid losses. For 2008, the split is 12% self-insureds and 88% insured employers.
- Assessment for insured employers (carriers) is calculated by determining the percentage share of an individual carrier's premium to all carriers premium.
- Assessment for self-insureds is calculated by determining the percentage share of a self-insured's paid losses to all self-insureds' paid losses.
- The Board will calculate the recommended funding level by December 1. This study will determine if an assessment is necessary. The Board "may employ a qualified employee or enter into a contract with an actuary or another qualified firm that has experience in calculating worker's compensation liabilities."

### **Conclusion**

You may also access the [Board's website](#) to view its documents. On its homepage is a description titled \*Revisions to Second Injury Fund Certification Posted\* which includes a link to the "[Second Injury Fund](#)" page.

You may access this and previous ICRB circulars about the Second Injury Fund on our website at [www.icrb.net](http://www.icrb.net). From our home page, click on the "CompClues" logo. You will see an alphabetical listing of reference documents. Simply scroll down to the document titled "Second Injury Fund" and open it. The circulars are saved in Adobe Acrobat PDF file format for easy viewing and printing. We hope this information helps in your understanding of the Second Injury Fund assessment process.

Sincerely,

Ronald W. Cooper, CWCP  
President

### **Attachments:**

- ✓ 2008 2nd Injury Recommendation Report and Assessment dated November 29, 2007
- ✓ Certification for Worker's Compensation Carriers, State Form 12386-b
- ✓ Indiana SIF for 2008 - Stepping Through the Process

***WORKERS COMPENSATION BOARD OF INDIANA***

**SECOND INJURY FUND  
CALCULATION OF FUNDING LEVEL**

**November 29, 2007**

Please note the assessment can be paid in two installments.

The due dates are:

**Jan 31, 2008**

**June 16, 2008**



## STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

Linda Peterson Hamilton, Chairman

**WORKERS COMPENSATION BOARD**

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### SECOND INJURY FUND STATUS and ASSESSMENT REPORT

November 29<sup>th</sup>, 2007

To the Indiana Worker's Compensation Community:

We are nearing the end of our first year under the new assessment formula. I am happy to report that our calculations were on point and that the SIF is in sound financial condition despite prosthetic expenses in 2007 being twice what they were in 2006.

In accordance with IC 22-3-3-13(c)(2), I also report to you that as of November 1, 2007 the amount to the credit of the Second Injury Fund was \$ 3,368,708.65. Disbursements for 2006 totaled \$3,628,236.16. The assets in the Fund were less than 135% of the previous years payments, and thus an assessment is appropriate for 2008.

Attached you will find a numerical Report setting out the financial status of the Fund as of November 15, 2007, which report also contains year-end projections. Final figures will be

included in the March 2008 report. I wish to draw your attention to two line items:

- a. Prudent Reserve of \$925,000.00
- b. Credit Against 2008 Assessment of \$1,684,113.15

When I met with the Board's Second Injury Fund advisory group, it was agreed that maintaining a reserve as a safety net was a good idea. In the future, we wish to avoid 2<sup>nd</sup> assessments or emergency loans, both of which were necessitated in the past when the fund had been completely depleted before year-end. Also, setting aside an amount to be used in the case of unanticipated demands on the Fund allows us to assess more closely in line with what we believe our actual needs will be in 2008.

Due to the cyclical nature of prosthetic replacement, we do not expect 2008's numbers to be as high as those of 2007. Typically, every 3<sup>rd</sup> year there is a larger drain on the fund in this area.

The second component of SIF payments comes in the form of wage-replacement benefits and is much more predictable. A review of our SIF recipient files shows we add disabled workers to our rolls faster than they are removed by either death or miraculous recovery from their workplace injuries. However, we can anticipate the number of new payees and the rate at which they will be paid according to the schedule of benefits in the Worker's Compensation Act. In 2008, we will also begin having hearings limited to the issue of whether a claimant is

*permanently and totally disabled* as intended for entry into the SIF in cases where the parties have stipulated to such but no finding has been made independently by the Board. Hearings may also occur in cases where the medical evidence supporting a renewal of benefits is less than overwhelming.

I would like to point out that if the data provided by the insurance community was identical to that used for the 2007 assessment, my news in this report would be even more favorable regarding the 2008 assessment. However, the numbers provided to the Board for use in determining the assessment reveal fewer dollar premiums written and greater losses paid out. Each of these statistics gives rise to the need for a greater burden on each payor of the SIF assessment. Still, it is with great pleasure that I tell you the assessment is substantially lower for 2008 than was paid in 2007. The assessment for 2007 was 1.6325% of the 2005 Direct Losses Paid. In 2008, your assessment shall be .54% of the 2006 Direct Losses Paid.

Please read this Report in conjunction with the attached Financial Report and the Certification Form to be used for your 2008 assessment. As has been done historically, you have the option of paying your assessment in two installments, due on January 31<sup>st</sup> and June 16<sup>th</sup>. Unlike years past, the 10% penalty set out at IC 22-3-3-13( c ) (2) will be charged if assessment installments are not timely received. Also note that no reminder shall be issued before the due date of the second installment.

I wish each of you a happy and prosperous New Year. Please don't hesitate to contact me or Mary Taivalkoski if you have questions or wish to discuss these reports or the 2008 assessment.

Yours Very Truly,

Linda Peterson Hamilton

## 2nd INJURY FUND REPORT

November 15, 2007

Actual Balance of Fund at Nov 1 <sup>st</sup> 2007	3,368,708.65
Actual Balance as of Nov 15 less monthly payout	3,151,615.82
*Loan Repayment	192,400.00
*Administrative Fees	42,000.00
December's Payout	308,102.67
Projected Balance of Fund at Dec 31 <sup>st</sup> 2007	2,609,113.15
Prudent Reserve (3 months expense)	925,000.00
Credit Against 2008 Assessment	1,684,113.15

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### 2008 Assessment Factors

Reported by ICRB for 2006:	
Total Losses Paid	395,044,000
Total Premiums Written	822,627,000
Self-Insured Factors 2006:	
Total Losses Paid	53,862,840
Estimated Expenditures	4,128,213.65
Recommended Assessment	2,444,100.50

**CERTIFICATION FOR WORKER'S COMPENSATION CARRIERS**

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, hereby CERTIFY that I am \_\_\_\_\_  
(Official Title)

of \_\_\_\_\_ and that I have knowledge of the  
(Carrier)

worker's compensation records of Carrier. I further CERTIFY that the amount of direct written premiums issued by Carrier for Indiana Worker's Compensation Insurance in the calendar year 2006 totaled \$ \_\_\_\_\_ (Carrier's Direct Written Premiums).

I further CERTIFY that I have calculated Carrier's 2008 assessment to the Second Injury Fund by dividing the above number representing Carrier's Direct Written Premiums by 822,627,000 (in dollars, the total direct written premiums for all worker's compensation carriers in Indiana 2006 ). I then multiplied this figure by 2,150,808.40 (which, in dollars represents the amount for all carriers' portion of the 2008 assessment for the Second Injury Fund) to arrive at \_\_\_\_\_. This figure, in dollars, represents Carrier's total annual assessment.

I further CERTIFY that the enclosed sum of \$ \_\_\_\_\_ represents one-half of Carrier's calculated assessment, which is the first installment of the statutory assessment due and payable to the Worker's Compensation Board of Indiana for the Second Injury Fund. I agree to pay \$ \_\_\_\_\_ as payment of the second half of Carrier's assessment for 2008 *without notice* to the Board by **June 16, 2008**.

I hereby verify, subject to penalties of perjury, that the facts contained herein are true.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Carrier Name

\_\_\_\_\_  
Federal ID Number

\_\_\_\_\_  
Telephone Number

\_\_\_\_\_  
E-mail Address

Mailing Address

Contact Email Address\*

**\*Please note that IC§22-3-3-13(j) requires each company subject to this assessment to provide to the Board the name, address, and E-mail address of a representative authorized to receive the notice of assessment.**



**Indiana Second Injury Fund Assessment (SIF) for 2008**  
*Stepping Through the Process*

HEA 1307 effective July 1, 2006  
 Indiana Code § 22-3-3-13

**Step 1**

IC § 22-3-3-13 (c)  
 WC Board sends notice by November 1 to  
     (1) carriers and other insuring entities, and  
     (2) self-insureds  
 that an assessment is necessary

**Step 2**

IC § 22-3-3-13 (c)  
 Entities then send to the WC Board their statements of total paid losses and premium by January 31.

Note: Entities use 2006 year figures since 2007 figures are not yet available. Entities should report "direct premiums written" and "direct losses paid."

**Step 3**

IC § 22-3-3-13 (c)  
 The assessment cannot exceed 2.5% of total losses (medical + indemnity). Note: Total losses are from all entities (carriers, other insuring entities, and self-insureds).

**Step 4**

IC § 22-3-3-13 (c)  
 As of November 1, if the SIF balance exceeds 135% of the prior year's disbursement, no assessment will occur.

**Step 5**

IC § 22-3-3-13 (d)  
 WC Board assesses "all employers." The assessment calculation begins by determining the percentage share of two groups: self-insureds and insured employers.

The percentage is based upon each group's portion of "total paid losses."

*Example:*

In this example, the SIF assessment is \$2.4 million.

Entity	2006 Total Paid Losses	Percent	Assessment Amt in Cert Form	Assessment Percentage
Self-insureds	\$53,862,840	12%	\$293,292	
Insured employers	\$395,044,000	88%	\$2,150,808	
Total	\$448,906,840	100%	\$2,444,100	0.54%



The example shows that self-insureds are responsible for 12% (\$293 thousand) of the \$2.4 million assessment and insured employers are responsible for 88% (\$2.1 million).

### **Step 6**

IC § 22-3-3-13 (d)(3)

The assessment for carriers is calculated by determining the percentage share of an individual carrier's premium to all carriers premium.

Carriers collect the assessment of insured employers via a SIF surcharge on the policy.

*Example:*

In this example, we use Indiana 2006 statewide premium of \$823 million.

<b>Entity</b>	<b>2006 Direct Premium Written</b>	<b>Percent</b>	<b>Assessment</b>	<b>Surcharge Factor</b>
Carrier A	\$9,000,000	1.1%	\$23,531	<b>0.0026</b>
Total All Carriers	\$822,627,000	100%	\$2,150,808	<b>0.0026</b>

The example shows that Carrier A writes \$9 million in premium and is responsible for 1.1% (\$23,531) of the insured employers portion (\$2.1 million).

### **Step 7**

IC § 22-3-3-13 (d)(4)

As noted above in Step 2, entities use 2006 year "direct premiums written."

### **Step 8**

IC § 22-3-3-13 (d)(5)

The assessment for self-insureds is calculated by determining the percentage share of a self-insured's paid losses to all self-insureds' paid losses.

### **Step 9**

IC § 22-3-3-13 (e)

The WC Board will calculate the recommended funding level by December 1. This study will determine if an assessment is necessary.

**Step 10**

IC § 22-3-3-13 (f)

Carriers collect the assessment of insured employers via a SIF surcharge on the policy. Each carrier's surcharge can be different since a carrier's projected premium for 2008 may differ from the amount reported for 2006 (See Step 2).

*Example 1:*

In this example, Carrier A wrote \$9 million in premium in 2006 and is responsible to pay a \$23,531 assessment. Carrier A projects 2008 premium to remain at \$9 million. It can recoup the cost of that assessment by applying a surcharge on its policies. It can calculate its surcharge on the policy as follows:

$$23,531 / 9,000,000 = 0.0026 \text{ or } .26\%$$

Let's assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0026 surcharge factor to total estimated annual premium.

Entity	2007 Total Estimated Annual Premium	Surcharge Factor	Surcharge Amount
Employer X	\$10,000	0.0026	\$26

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$26.

*Example 2:*

In this example, Carrier A wrote \$9 million in premium in 2006 and is responsible to pay a \$23,531 assessment. Carrier A projects 2008 premium to increase to \$12 million. It can recoup the cost of that assessment by applying a surcharge on its policies. It can calculate its surcharge on the policy as follows:

$$23,531 / 12,000,000 = 0.002 \text{ or } .2\%$$

Let's assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.002 surcharge factor to total estimated annual premium.

Entity	Total Estimated Annual Premium	Surcharge Factor	Surcharge Amount
Employer X	\$10,000	0.002	\$20

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$20.